

**REPORT OF THE AUDIT OF THE
BUTLER COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Hugh C. Evans, Butler County Judge/Executive
Members of the Butler County Fiscal Court

The enclosed report prepared by Percy and Gray, PSC, Certified Public Accountant, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Butler County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements.

We engaged Percy and Gray, PSC, to perform the audit of these financial statements. We worked closely with the firm during our report review process; Percy and Gray, PSC, evaluated the Butler County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BUTLER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

Peercy and Gray, PSC, has completed the audit of the Butler Fiscal Court for fiscal year ended June 30, 2004. We have issued an unqualified opinion, based on our audit, on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information.

Financial Condition:

The fiscal court had net assets of \$2,094,274 as of June 30, 2004. The fiscal court had unrestricted net assets of \$1,442,702 in its governmental activities as of June 30, 2004, with total net assets of \$2,088,503. In its business-type activities, total net cash and cash equivalents were \$5,771 with total net assets of \$5,771. The fiscal court had total debt principal as of June 30, 2004 of \$664,796 with \$92,283 due within the next year.

Report Comment:

- The Fiscal Court Had Expenditures In Excess Of Budgeted Appropriations

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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PEERCY AND GRAY, PSC

Certified Public Accountants

2300 Hurstbourne Village Drive, Suite 500

Louisville, Kentucky 40299

Phone: (502) 493-1090

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Hugh C. Evans, Butler County Judge/Executive

Members of the Butler County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Butler County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Butler County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Butler County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Butler County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
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Finance and Administration Cabinet
Honorable Hugh C. Evans, Butler County Judge/Executive
Members of the Butler County Fiscal Court

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Butler County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated July 29, 2005 on our consideration of Butler County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based upon the results of our audit, we present the accompanying comment and recommendation, herein, which discusses the following report comment.

- The Fiscal Court Had Expenditures In Excess Of Budgeted Appropriations

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Percy and Gray, PSC
Certified Public Accountants

Audit fieldwork completed -
July 29, 2005

BUTLER COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

Hugh C. Evans	County Judge/Executive
Roger McKinney	Magistrate
Stevie Givens	Magistrate
Allen Smith	Magistrate
Rollie Clark	Magistrate
Kathy Bratcher	Magistrate

Other Elected Officials:

Richard Deye	County Attorney
Terry Fugate	Jailer
Diane Ingram	County Clerk
Bonnie Howard	Circuit Court Clerk
Keneth Morris	Sheriff
Richard Embry	Property Valuation Administrator
Gerald Jones	Coroner

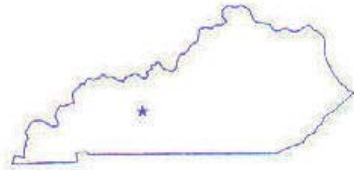
Appointed Personnel:

Angela Pendley	County Treasurer
Suzanne Brosman	Finance Officer

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HUGH C. EVANS
 BUTLER COUNTY JUDGE EXECUTIVE
 P.O. BOX 626
 MORGANTOWN, KENTUCKY 42261
 PHONE (270) 526-3433



**Butler County Fiscal Court
 Management's Discussion and Analysis
 June 30, 2004**

The financial management of Butler County, Kentucky offers readers of Butler County's financial statements this narrative overview and analysis of the financial activities of Butler County for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our financial statements and the notes to the financial statements.

Financial Highlights

- Butler County has net assets of \$2,094,274, including current and capital assets, as of June 30, 2004.
- Butler County's total indebtedness at the close of fiscal year June 30, 2004 was \$664,796, \$572,513 of which is long-term debt (due after 1 year) and \$92,283 is short-term debt (to be paid within 1 year). There were two new debt additions during the fiscal year in the amount of \$51,336, and debt reductions were \$113,227 for the fiscal year. The County also has outstanding debt in the amount of \$495,000 (this is inclusive in the total debt amount reported above) for the courthouse. However, a portion of the courthouse's payments will be made by the Administrative Office of the Courts, and the county's liability is reflected in the debt reduction section.
- The County received various grants during the fiscal year. Grants in the amount \$152,566, were received for various projects, including litter abatement and a Water Line Expansion.
- During the fiscal year, the Butler County Ambulance Service was upgraded with the purchase of a new ambulance.

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Butler County's basic financial statements. Butler County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Butler County's finances, in a manner similar to a private-sector business.

Overview of the Financial Statements (Continued)

The *Statement of Net Assets* presents information on Butler County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Butler County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported as soon as transactions occur, regardless of when the related cash flows are reported (modified cash basis of accounting). Therefore some revenues and expenses included in this statement may reflect cash flows that actually occur in future periods.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Butler County's governmental activities include general governmental, protection to persons and property, roads, and general health. The county has one business-type activity – the operation of a jail canteen.

The government-wide financial statements include not only Butler County itself (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the County, such as a Public Properties entity. Butler County has no such entity.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Butler County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal and state tax requirements. All of the funds of Butler County can be divided into two broad categories: *governmental funds and proprietary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Overview of the Financial Statements (Continued)

Butler County maintains five individual governmental funds (three major funds and two non-major funds). Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Fund, and Jail Fund, all of which are considered major funds by the county. The two non-major funds are LGEA and Debt Sinking Fund.

Butler County adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided in this analysis for each of these funds to demonstrate compliance with their budgets.

Proprietary Funds. Proprietary funds provide the same type of information as the business-type activities column on the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Table 1
Butler County Net Assets

	Governmental Activities		Business-type Activities		Total	
	2003	2004	2003	2004	2003	2004
Assets						
Current and other assets	\$ 1,303,827	\$ 1,460,187	\$ 3,283	\$ 5,771	\$ 1,307,110	\$ 1,465,958
Capital assets	1,080,024	1,293,112			1,080,024	1,293,112
Total Assets	2,383,851	2,753,299	3,283	5,771	2,387,134	2,759,070
Liabilities						
Current liabilities		92,283				92,283
Long-term liabilities	726,687	572,513			726,687	572,513
Total Liabilities	726,687	664,796			726,687	664,796
Net Assets						
Invested in capital assets, net of related debt	353,337	628,316			353,337	628,316
Restricted		17,485	3,283		3,283	17,485
Unrestricted	1,303,827	1,442,702		5,771	1,303,827	1,448,473
Total Net Assets	<u>\$ 1,657,164</u>	<u>\$ 2,088,503</u>	<u>\$ 3,283</u>	<u>\$ 5,771</u>	<u>\$ 1,660,447</u>	<u>\$ 2,094,274</u>

Government-Wide Financial Analysis (Continued)

As noted earlier, Butler County uses fund accounting to ensure and demonstrate compliance with legal and statutory requirements.

Governmental Funds Overview. The focus of Butler County governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the June 30, 2004 fiscal year, the combined ending fund balance of County government funds was \$1,460,187.

The County has three major governmental funds and two non-major funds. These major funds are 1) General Fund; 2) Road Fund; 3) and Jail Fund. The non-major funds are 1) LGEA and 2) Debt Sinking Fund.

Major Funds:

1. The General Fund is the chief operating fund of Butler County. At the end of June 30, 2004 fiscal year, the total fund balance of the General Fund was \$817,842. The county received \$678,764 in Occupational and Net Profits Tax revenue, which accounts for approximately 34% of total general fund revenues. \$328,148 was received from real and personal property taxes, and accounts for approximately 16% of the county's general fund revenues. \$223,491 was received from Ambulance Service receipts, and account for approximately 11% of the county's general fund revenues. \$158,011 was received from 911 fees (wired and CMRS wireless), and accounts for approximately 8% of the county's general fund revenues. \$124,000 in Water Lines Grant Monies accounts for 6% of the county's general fund revenues. Various other taxes, service fees, and grants make up the remaining 25% of revenues.
2. The Road Fund is the fund related to county road and bridge construction and maintenance. The Road Fund had a fund balance at June 30, 2004 of \$579,960.
3. The Jail Fund is used to account for the operation of the County's detention program. The Jail fund had a fund balance at June 30, 2004 of \$700. The ending balance at each fiscal year remains relatively low due to the General Fund transfers being on a as need basis.

Non-Major Funds:

1. The LGEA Fund is used largely for repairs to Coal Haul Roads. The LGEA fund had a fund balance at June 30, 2004 of \$44,200.
2. The Debt Sinking Fund is a clearing fund for the Courthouse Debt, which is paid in large part by AOC. The Debt Sinking Fund had a fund balance at June 30, 2004 of \$17,485.

Proprietary Funds Overview. The County's proprietary fund statements provide the same type of information found in the business-type activities column and the government-wide financial statements, but in more detail.

Butler County has one enterprise fund, the Jail Canteen Fund. The Jail Canteen Fund had a cash balance of \$5,771.

General Fund Budgetary Highlights

The County's original budget was amended during the fiscal year increasing the operating budget by \$1,079,820. Budget amendments were made to include an unbudgeted Home Land Security Grant (\$92,000), unanticipated KARP (advance revenue monies in the amount of \$980,720), State Road Aid Monies (\$472,795), and surplus revenues as opposed to projected collections (\$42,705).

Actual operating revenues were \$584,240 less than the final budget adopted by the Fiscal Court, largely due to additional Road Aid Monies, and actual operating expenses were \$1,096,883 less than the final budget. This variance is largely due to the cut backs in General Fund spending.

Capital Assets and Debt Administration

Capital Assets. Butler County's investment in capital assets for its government and business type activities as of June 30, 2004, amounts to \$1,293,112 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles and current year infrastructure additions. The County has elected to report infrastructure assets per GASB 34 provisions.

Additional information on the County's capital assets can be found in Note 3 to the financial statements.

Table 2
Butler County's Capital Assets, Net of Accumulated Depreciation

	Governmental Activities		Business-type Activities		Total	
	2003	2004	2003	2004	2003	2004
Land	\$ 191,933	\$ 191,933			\$ 191,933	\$ 191,933
Buildings	695,683	660,592			695,683	660,592
Vehicles and equipment	140,918	162,618			140,918	162,618
Other equipment	51,490	46,354			51,490	46,354
Infrastructure		231,615				231,615
	<u>\$1,080,024</u>	<u>\$1,293,112</u>			<u>\$1,080,024</u>	<u>\$1,293,112</u>

Long-Term Debt. At the end of the 2004 fiscal year, Butler County had total long-term debt outstanding of \$664,796. The amount of this debt due within the next year is \$92,283 and \$572,513 is due in subsequent years. \$495,000 of this debt is for the courthouse. Additional information on the County's long-term debt can be found in Note 5 to the financial statements.

Short-Term Debt. The county has no short-term debt at the end of the fiscal year.

Other matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2004 fiscal year budget:

- The 2004 fiscal year Adopted Budget continues most services at current levels with the exception for which federal or state funding is decreasing or for projects which have been completed or are nearing completion.
- Loss of jobs due to a large manufacturer closing continues to affect the tax revenues and has resulted in a county employee wage freeze for the last two years.
- Program cuts at the State level may have a negative impact on funding for county programs. The Fiscal Court may decide to alter the operations or funding of County operations

Requests for Information

This financial report is designed to provide a general overview of Butler County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Butler County Treasurer, 110 North Main Street, P.O. Box 626, Morgantown, Kentucky 42261.

BUTLER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

BUTLER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,460,187	\$ 5,771	\$ 1,465,958
Total Current Assets	<u>1,460,187</u>	<u>5,771</u>	<u>1,465,958</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation:			
Land and Land Improvements	191,933		191,933
Buildings	660,592		660,592
Other Equipment	46,354		46,354
Vehicles and Equipment	162,618		162,618
Infrastructure	231,615		231,615
Total Noncurrent Assets	<u>1,293,112</u>		<u>1,293,112</u>
Total Assets	<u>2,753,299</u>	<u>5,771</u>	<u>2,759,070</u>
LIABILITIES			
Current Liabilities:			
Financing Obligations	92,283		92,283
Total Current Liabilities	<u>92,283</u>		<u>92,283</u>
Noncurrent Liabilities:			
Financing Obligations	572,513		572,513
Total Noncurrent Liabilities	<u>572,513</u>		<u>572,513</u>
Total Liabilities	<u>664,796</u>		<u>664,796</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	628,316		628,316
Restricted For:			
Debt Service	17,485		17,485
Unrestricted	1,442,702	5,771	1,448,473
Total net assets	<u>\$ 2,088,503</u>	<u>\$ 5,771</u>	<u>\$ 2,094,274</u>

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

BUTLER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,238,945	\$ 238,900	\$ 156,215	\$ 154,100
Protection to Persons and Property	1,230,125	44,580	319,182	
General Health and Sanitation	78,841			
Social Services	2,551			
Recreation and Culture	3,527			
Roads	1,013,932		1,650,729	
Interest on Long-Term Debt	37,919			
Capital Projects	191			
Total Governmental Activities	3,606,031	283,480	2,126,126	154,100
Business-type Activities:				
Jail Canteen	55,664	58,152		
Total Business-type Activities	55,664	58,152		
Total Primary Government	\$ 3,661,695	\$ 341,632	\$ 2,126,126	\$ 154,100

General Revenues:

Taxes:
 Real Property Taxes
 Personal Property Taxes
 Motor Vehicle Taxes
 Other Taxes
 Excess Fees
 Unrestricted Investment Earnings
 Miscellaneous Revenues

 Total General Revenues
 Change in Net Assets
 Net Assets - Beginning (Restated)

 Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

BUTLER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (689,730)	\$	\$ (689,730)
(866,363)		(866,363)
(78,841)		(78,841)
(2,551)		(2,551)
(3,527)		(3,527)
636,797		636,797
(37,919)		(37,919)
(191)		(191)
(1,042,325)		(1,042,325)
	2,488	2,488
	2,488	2,488
(1,042,325)	2,488	(1,039,837)
227,238		227,238
9,334		9,334
64,994		64,994
952,282		952,282
95,820		95,820
29,914		29,914
94,082		94,082
1,473,664		1,473,664
431,339	2,488	433,827
1,657,164	3,283	1,660,447
\$ 2,088,503	\$ 5,771	\$ 2,094,274

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004

BUTLER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	General Fund	Road Fund	Jail Fund
ASSETS			
Cash and Cash Equivalents	\$ 817,842	\$ 579,960	\$ 700
Total Assets	<u>817,842</u>	<u>579,960</u>	<u>700</u>
FUND BALANCES			
Unreserved:			
General Fund	817,842		
Special Revenue Fund		579,960	700
Reserved for:			
Debt Sinking Fund			
Total Fund Balances	<u>\$ 817,842</u>	<u>\$ 579,960</u>	<u>\$ 700</u>

Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Assets:

Total Fund Balances

Amounts Reported For Governmental Activities In The Statement

Of Net Assets Are Different Because:

 Capital Assets Used in Governmental Activities Are Not Financial Resources

 And Therefore Are Not Reported in the Funds.

 Accumulated Depreciation

 Long-term debt is not due and payable in the current period and,
 therefore, is not reported in the funds.

 Financing Obligations

Net Assets Of Governmental Activities

The accompanying notes are an integral part of the financial statements.

BUTLER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004
(Continued)

Non-Major Governmental Funds	Total Governmental Funds
<u>\$ 61,685</u>	<u>\$ 1,460,187</u>
<u>61,685</u>	<u>1,460,187</u>

	817,842
44,200	624,860
<u>17,485</u>	<u>17,485</u>
<u>\$ 61,685</u>	<u>\$ 1,460,187</u>

\$ 1,460,187

3,166,081
(1,872,969)

(664,796)

\$ 2,088,503

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

BUTLER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
REVENUES			
Taxes	\$ 1,212,789	\$	\$
In Lieu Tax Payments	41,059		
Excess Fees	95,820		
Intergovernmental	262,635	1,594,385	319,182
Charges for Services	238,900		44,580
Miscellaneous	87,512	2,768	3,802
Interest	20,445	8,494	
Total Revenues	<u>1,959,160</u>	<u>1,605,647</u>	<u>367,564</u>
EXPENDITURES			
General Government	514,939		
Protection to Persons and Property	768,744		422,540
General Health and Sanitation	78,841		
Social Services	2,551		
Recreation and Culture	3,527		
Roads and Airport		1,129,950	
Debt Service	74,113	25,658	
Capital Projects		191	
Administration	470,360	181,938	121,256
Total Expenditures	<u>1,913,075</u>	<u>1,337,737</u>	<u>543,796</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>46,085</u>	<u>267,910</u>	<u>(176,232)</u>
Other Financing Sources (Uses)			
Financing Obligation Proceeds	51,336		
Transfers From Other Funds	61,000		168,000
Transfers To Other Funds	(188,902)	(61,000)	
Total Other Financing Sources (Uses)	<u>(76,566)</u>	<u>(61,000)</u>	<u>168,000</u>
Net Change in Fund Balances	(30,481)	206,910	(8,232)
Fund Balances - Beginning (Restated)	848,323	373,050	8,932
Fund Balances - Ending	<u>\$ 817,842</u>	<u>\$ 579,960</u>	<u>\$ 700</u>

The accompanying notes are an integral part of the financial statements.

BUTLER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Non-Major Governmental Funds	Total Governmental Funds
\$	\$ 1,212,789
	41,059
	95,820
104,024	2,280,226
	283,480
	94,082
975	29,914
<u>104,999</u>	<u>4,037,370</u>
	514,939
	1,191,284
	78,841
	2,551
	3,527
86,309	1,216,259
51,375	151,146
	191
54	773,608
<u>137,738</u>	<u>3,932,346</u>
<u>(32,739)</u>	<u>105,024</u>
	51,336
20,902	249,902
	(249,902)
<u>20,902</u>	<u>51,336</u>
(11,837)	156,360
73,522	1,303,827
<u>\$ 61,685</u>	<u>\$ 1,460,187</u>

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

BUTLER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 156,360
Amounts Reported For Governmental Activities In The Statement Of Activities Are Different Because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital Outlay	333,411
Depreciation Expense	(120,323)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds. These transactions have no effect on net assets.	
Financing Obligation	(51,336)
Financing Obligation payments are expensed in the Governmental Funds as a use of current financial resources. These transactions have no effect on net assets.	
Financing Obligation Principal Payments	113,227
Change in Net Assets of Governmental Activities	\$ 431,339

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS
June 30, 2004

BUTLER COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 5,771
Total Current Assets	<u>5,771</u>
Net Assets	
Unrestricted	5,771
Total Net Assets	<u><u>\$ 5,771</u></u>

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

BUTLER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 58,152
Total Operating Revenues	<u>58,152</u>
Operating Expenses	
Cost of Sales	33,174
Personnel Costs	19,600
Miscellaneous	<u>2,890</u>
Total Operating Expenses	<u>55,664</u>
Operating Income	<u>2,488</u>
Change In Net Assets	2,488
Total Net Assets - Beginning	<u>3,283</u>
Total Net Assets - Ending	<u><u>\$ 5,771</u></u>

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

BUTLER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY
FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 58,152
Cost of Sales	(33,174)
Personnel Costs	(19,600)
Miscellaneous	(2,890)
Net Cash Provided By Operating Activities	<u>2,488</u>
Net Increase in Cash and Cash Equivalents	2,488
Cash and Cash Equivalents - July 1, 2003	<u>3,283</u>
Cash and Cash Equivalents - June 30, 2004	<u><u>\$ 5,771</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	<u>\$ 2,488</u>
Total Cash Provided By Operating Activities	<u><u>\$ 2,488</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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**BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds included in the fund balance.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expenses is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Butler County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Legally separate organizations are reported as component units if either the county is financially accountable or their exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. Based upon the application of the criteria stated in GASB 14 and GASB 39, there are no component units which merit consideration as part of the reporting entity.

C. Butler County Elected Officials Not Part Of Butler County, Kentucky

Kentucky law provides for election of the below officials from the geographic area constituting Butler County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Butler County, Kentucky.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Butler County Elected Officials Not Part Of Butler County, Kentucky (Continued)

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets, 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation, and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function, 2) operating grants and contributions, and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office For Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office For Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, other counties for housing prisoners and transfers from the General Fund. The Governor's Office For Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

The primary government also has the following nonmajor funds: Debt Sinking Fund and Local Government Economic Assistance Fund.

Special Revenue Funds

The Road Fund, Jail Fund, and Local Government Economic Assistance Fund are presented as Special Revenue funds. Special Revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Sinking Fund

The Debt Sinking Fund is presented as a Debt Service Fund. Debt Sinking Funds account for the Accumulation of resources for the payment of general long-term debt principal and interest. The debt service is provided in large part by AOC for the Courthouse.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the county's enterprise fund are charges to customers for sales in the Jail Canteen Fund.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds (Continued)

Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. This fund does not collect funds received from the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, other equipment, building improvements, vehicles and equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. The County has elected to record infrastructure starting with the fiscal year 2004 activity with no retroactive recording. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Furniture and Fixtures	\$ 5,000	3-25
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 10,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, and encumbrances.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities, however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organization and Jointly Governed Organization

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, there are no related organizations of Butler County Fiscal Court.

A legal entity or other organization that results from a contractual agreement and that is owned, operated or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, there are no joint ventures of Butler County Fiscal Court.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2004, the primary government's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the county's agent in the county's name.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 191,933	\$	\$	\$ 191,933
Total Capital Assets Not Being Depreciated	191,933			191,933
Capital Assets, Being Depreciated:				
Buildings	1,486,694			1,486,694
Other Equipment	472,260	15,305		487,565
Vehicles and Equipment	681,783	76,838		758,621
Infrastructure		241,268		241,268
Total Capital Assets Being Depreciated	2,640,737	333,411		2,974,148
Less Accumulated Depreciation For:				
Buildings	(791,011)	(35,091)		(826,102)
Other Equipment	(420,770)	(20,441)		(441,211)
Vehicles and Equipment	(540,865)	(55,138)		(596,003)
Infrastructure		(9,653)		(9,653)
Total Accumulated Depreciation	(1,752,646)	(120,323)		(1,872,969)
Total Capital Assets, Being Depreciated, Net	888,091	213,088		1,101,179
Governmental Activities Capital Assets, Net	\$ 1,080,024	\$ 213,088	\$ 0	\$ 1,293,112

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 42,541
Protection to Persons and Property	38,841
Roads Including Infrastructure	<u>38,941</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 120,323</u>

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Short-term Borrowing

In July 2003, Butler County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$1,287,100, with principal being due in January 2004. While the county did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$3,100.

Note 5. Financing Obligations

A. Courthouse

On September 24, 1997, the Butler County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the renovation and expansion of the Butler County Courthouse. The principal was \$638,000 at a rate of 4.83% interest for a period of 20 years, interest paid monthly, and principal paid annually. Principal outstanding as of June 30, 2004 was \$495,000. Future lease payment requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2005	\$ 28,163	\$ 28,000
2006	26,507	29,000
2007	24,769	31,000
2008	22,938	32,000
2009	21,025	34,000
2010-2014	72,796	196,000
2015-2017	13,784	145,000
Totals	<u>\$ 209,982</u>	<u>\$ 495,000</u>

B. Fire Truck

On December 30, 1999, the Butler County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the purchase of a fire truck. The principal was \$41,000 at a rate of 4.28% interest for a period of 10 years, interest and principal paid monthly. Principal outstanding as of June 30, 2004 was \$24,885. Future lease payment requirements are:

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Financing Obligations (Continued)

B. Fire Truck (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2005	\$ 679	\$ 4,172
2006	555	4,292
2007	426	4,416
2008	294	4,543
2009	158	4,674
July 2, 1905	28	2,788
Totals	<u>\$ 2,140</u>	<u>\$ 24,885</u>

C. Fire Truck

On November 30, 2001, the Butler County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the purchase of a fire truck. The principal was \$48,902 at a rate of 4.28% interest for a period of 10 years, interest and principal paid monthly. Principal outstanding as of June 30, 2004 was \$ 34,351. Future lease payment requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2005	\$ 1,028	\$ 5,215
2006	795	4,965
2007	646	5,108
2008	494	5,255
2009	335	5,406
2010-2011	199	8,402
Totals	<u>\$ 3,497</u>	<u>\$ 34,351</u>

D. Chip Spreader

On March 12, 2001, the Butler County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the purchase of a chip spreader. The principal was \$60,680 at a rate of 4.31% interest for a period of 5 years, interest and principal paid monthly. Principal outstanding as of June 30, 2004 was \$23,910. Future lease payment requirements are:

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Financing Obligations (Continued)

D. Chip Spreader (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2005	\$ 529	\$ 13,517
2006	129	10,393
Totals	<u>\$ 658</u>	<u>\$ 23,910</u>

E. Ambulance

On October 30, 2000, the Butler County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the purchase of an ambulance. The principal was \$69,550 at a rate of 4.53% interest for a period of 10 years, interest and principal paid monthly. Principal outstanding as of June 30, 2004 was \$18,971. Future lease payment requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2005	\$ 529	\$ 13,833
2006	60	5,138
Totals	<u>\$ 589</u>	<u>\$ 18,971</u>

F. Dump Truck

On October 25, 2001, the Butler County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the purchase of a dump truck. The principal was \$51,725 at a rate of 3.73% interest for a period of 5 years, interest paid monthly and principal paid annually. Principal outstanding as of June 30, 2004 was \$21,795. Future lease payment requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2005	\$ 664	\$ 10,705
2006	248	11,090
Totals	<u>\$ 912</u>	<u>\$ 21,795</u>

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Financing Obligations (Continued)

G. Ambulance

On March 22, 2004, the Butler County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the purchase of an ambulance. The principal was \$34,984 at a rate of 2.85% interest for a period of 3 years, interest paid monthly and principal paid annually. Principal outstanding as of June 30, 2004 was \$34,984. Future lease payment requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2005	\$ 845	\$ 11,441
2006	541	11,660
2007	211	11,883
Totals	<u>\$ 1,597</u>	<u>\$ 34,984</u>

H. Vehicle

On July 2, 2003, the Butler County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the purchase of a vehicle. The principal was \$16,200 at a rate of 2.54% interest for a period of 30 months, interest paid monthly and principal paid annually. Principal outstanding as of June 30, 2004 was \$10,900. Future lease payment requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2005	\$ 317	\$ 5,400
2006	119	5,500
Totals	<u>\$ 436</u>	<u>\$ 10,900</u>

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Financing Obligations (Continued)

I. Changes In Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	726,687	51,336	113,227	664,796	92,283
Governmental Activities					
Long-term Liabilities	<u>\$ 726,687</u>	<u>\$ 51,336</u>	<u>\$ 113,227</u>	<u>\$ 664,796</u>	<u>\$ 92,283</u>

Note 6. Employee Retirement System

Fiscal Court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 7. Deferred Compensation

All eligible employees of Butler County are allowed to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 7. Deferred Compensation (Continued)

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority, 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 8. Insurance

For the fiscal year ended June 30, 2004, Butler County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Changes in Accounting Principles and Prior Period Adjustments

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change on the beginning net assets of the governmental type activities is an increase of \$414,317 due to capital assets, long-term debt, and payroll cash balances previously not reported.

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BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 951,500	\$ 951,500	\$ 1,212,789	\$ 261,289
In Lieu Tax Payments	30,000	30,000	41,059	11,059
Excess Fees	61,000	68,100	95,820	27,720
Intergovernmental Revenue	1,216,800	1,308,800	262,635	(1,046,165)
Charges for Services	165,000	165,000	238,900	73,900
Miscellaneous	10,000	10,000	87,512	77,512
Interest	10,000	10,000	20,445	10,445
Total Revenues	2,444,300	2,543,400	1,959,160	(584,240)
EXPENDITURES				
General Government	509,953	561,736	498,739	62,997
Protection to Persons and Property	815,604	966,910	733,608	233,302
General Health and Sanitation	1,074,800	919,353	78,841	840,512
Social Services	3,900	3,900	2,551	1,349
Recreation and Culture	5,000	5,035	3,527	1,508
Debt Service	314,600	1,295,320	1,361,213	(65,893)
Administration	442,045	493,468	470,360	23,108
Total Expenditures	3,165,902	4,245,722	3,148,839	1,096,883
Deficiency of Revenues				
Over Expenditures Before Other Financing Uses	(721,602)	(1,702,322)	(1,189,679)	512,643
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds	314,600	1,295,320	1,287,100	(8,220)
Transfers From Other Funds	61,000	61,000	61,000	
Transfers To Other Funds	(208,847)	(208,847)	(188,902)	19,945
Total Other Financing Sources	166,753	1,147,473	1,159,198	11,725
Net Changes in Fund Balances	(554,849)	(554,849)	(30,481)	524,368
Fund Balances - Beginning (Restated)	554,849	554,849	848,323	293,474
Fund Balances - Ending	\$ 0	\$ 0	\$ 817,842	\$ 817,842

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	ROAD FUND			
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts,</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
Intergovernmental Revenue	\$ 931,587	\$ 1,404,382	\$ 1,594,385	\$ 190,003
Miscellaneous			2,768	2,768
Interest	9,000	9,000	8,494	(506)
Total Revenues	<u>940,587</u>	<u>1,413,382</u>	<u>1,605,647</u>	<u>192,265</u>
EXPENDITURES				
Roads	832,800	1,286,882	1,129,950	156,932
Capital Projects	4,000	4,000	191	3,809
Debt Service	25,000	25,000	25,658	(658)
Administration	180,250	231,905	181,938	49,967
Total Expenditures	<u>1,042,050</u>	<u>1,547,787</u>	<u>1,337,737</u>	<u>210,050</u>
Excess (Deficiency) of Revenues				
Over Expenditures Before Other	<u>(101,463)</u>	<u>(134,405)</u>	<u>267,910</u>	<u>402,315</u>
Financing Uses				
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds	25,000	25,000		(25,000)
Transfers To Other Funds	<u>(61,000)</u>	<u>(61,000)</u>	<u>(61,000)</u>	
Total Other Financing Sources (Uses)	<u>(36,000)</u>	<u>(36,000)</u>	<u>(61,000)</u>	<u>(25,000)</u>
Net Changes in Fund Balances	(137,463)	(170,405)	206,910	377,315
Fund Balances - Beginning	<u>137,463</u>	<u>170,405</u>	<u>373,050</u>	<u>202,645</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 579,960</u>	<u>\$ 579,960</u>

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 255,940	\$ 258,603	\$ 319,182	\$ 60,579
Charges for Services	30,000	30,000	44,580	14,580
Miscellaneous	3,200	3,200	3,802	602
Total Revenues	289,140	291,803	367,564	75,761
EXPENDITURES				
Protection to Persons and Property	402,197	429,084	422,540	6,544
Administration	95,790	71,566	121,256	(49,690)
Total Expenditures	497,987	500,650	543,796	(43,146)
Deficiency of Revenues				
Over Expenditures Before Other Financing Sources	(208,847)	(208,847)	(176,232)	32,615
OTHER FINANCING SOURCES				
Transfers From Other Funds	208,847	208,847	168,000	(40,847)
Total Other Financing Sources	208,847	208,847	168,000	(40,847)
Net Changes in Fund Balances	-	-	(8,232)	(8,232)
Fund Balances - Beginning			8,932	8,932
Fund Balances - Ending	\$ 0	\$ 0	\$ 700	\$ 700

BUTLER COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Budgetary Information

1. Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

2. Reconciliation of General Fund

Total Expenditures - Budgetary Basis	\$ 3,148,839
Less: Short-term Debt Borrowing	<u>(1,287,100)</u>
Total Expenditures - Modified Cash Basis	<u><u>\$ 1,861,739</u></u>
 Total Other Financing Sources - Budgetary Basis	 \$ 1,210,534
Less: Short-term Debt Borrowing	<u>(1,287,100)</u>
Total Other Financing Sources (Uses) - Modified Cash Basis	<u><u>\$ (76,566)</u></u>

BUTLER COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

BUTLER COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

	LGEA Fund	Debt Sinking Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 44,200	\$ 17,485	\$ 61,685
Total Assets	<u>44,200</u>	<u>17,485</u>	<u>61,685</u>
FUND BALANCES			
Unreserved:			
Special Revenue Fund	44,200		44,200
Reserved for:			
Debt Sinking Fund		<u>17,485</u>	<u>17,485</u>
Total Fund Balances	<u>\$ 44,200</u>	<u>\$ 17,485</u>	<u>\$ 61,685</u>

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BUTLER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

BUTLER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	LGEA Fund	Debt Sinking Fund	Total Non-Major Governmental Funds
REVENUES			
Intergovernmental	\$ 56,344	\$ 47,680	\$ 104,024
Interest	795	180	975
Total Revenues	<u>57,139</u>	<u>47,860</u>	<u>104,999</u>
EXPENDITURES			
Roads	86,309		86,309
Debt Service		51,375	51,375
Administration		54	54
Total Expenditures	<u>86,309</u>	<u>51,429</u>	<u>137,738</u>
Deficiency of Revenues Over Expenditures Before Other Financing Sources	<u>(29,170)</u>	<u>(3,569)</u>	<u>(32,739)</u>
Other Financing Sources			
Transfers From Other Funds		20,902	20,902
Total Other Financing Sources		<u>20,902</u>	<u>20,902</u>
Net Change in Fund Balances	(29,170)	17,333	(11,837)
Fund Balances - Beginning (Restated)	<u>73,370</u>	<u>152</u>	<u>73,522</u>
Fund Balances - Ending	<u><u>\$ 44,200</u></u>	<u><u>\$ 17,485</u></u>	<u><u>\$ 61,685</u></u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



PEERCY AND GRAY, PSC

Certified Public Accountants

2300 Hurstbourne Village Drive, Suite 500

Louisville, Kentucky 40299

Phone: (502) 493-1090

FAX: (502) 493-7231

The Honorable Hugh C. Evans, Butler County Judge/Executive
Members of the Butler County Fiscal Court

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Butler County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated July 29, 2005. Butler County, Kentucky prepares its financial statements in accordance with the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Butler County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Butler County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards.

- The Fiscal Court Had Expenditures In Excess Of Budgeted Appropriations

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Percy and Gray, PSC".

Percy and Gray, PSC
Certified Public Accountants

Audit fieldwork completed -
July 29, 2005

**BUTLER COUNTY
COMMENT AND RECOMMENDATION**

For The Year Ended June 30, 2004

REPORTABLE CONDITIONS

None

NONCOMPLIANCE

The Fiscal Court Had Expenditures In Excess Of Budgeted Appropriations

The Fiscal Court had expenditures in excess of budgeted appropriations in the Jail Fund, which is considered a noncompliance in accordance with KRS 68.300. The Jail Fund expenditures exceeded the budget by \$43,146.

We recommend that Fiscal Court amend the budget in the future to cover all the expenditures.

Response:

When we realized there needed to be a budget amendment we were in an end of the fiscal year time constraint. DLG advised us to make an interfund transfer. Our software did not cooperate, so the end of the year quarterly does not accurately reflect what took place within the appropriation accounts.

PRIOR YEAR FINDING

The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$163,303 To Protect Deposits

This finding has been corrected for the fiscal year ended June 30, 2004.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
BUTLER COUNTY FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**

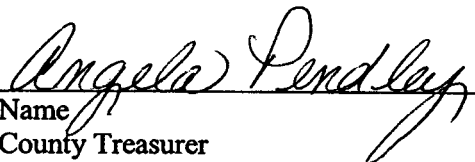
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS
BUTLER COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

The Butler County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer